

STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY

JAY B. RISING
State Treasurer



Report on
Examination

**ONTONAGON COUNTY
ROAD COMMISSION**

September 30, 2003

Local Audit and Finance Division
Bureau of Local Government Services

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STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

JAY B. RISING
STATE TREASURER

February 11, 2004

Board of County Road Commissioners
Ontonagon County
414 Spar Street
Ontonagon, Michigan 49953

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying general purpose financial statements of the Ontonagon County Road Commission, a component unit of Ontonagon County, Michigan, as of and for the year ended September 30, 2003, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Ontonagon County Road Commission, as of September 30, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 11, 2004 on our consideration of the Road Commission's internal control over financial reporting and our test on its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of Ontonagon County Road Commission, taken as a whole. The accompanying

supplemental and related information in Exhibits E through G is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements, taken as a whole.

A handwritten signature in black ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

ONTONAGON COUNTY ROAD COMMISSION

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**ONTONAGON COUNTY ROAD COMMISSION
COMBINED BALANCE SHEET
September 30, 2003**

EXHIBIT A

	GOVERNMENTAL			Total (Memorandum Only)
	FUND TYPE	ACCOUNT GROUP		
	General Operating Fund	General Long-Term Debt	General Fixed Assets	
<u>ASSETS</u>				
Cash	\$ 518,728			\$ 518,728
Taxes Receivable				
Delinquent Personal Property	8,089			8,089
Accounts Receivable				
State Trunkline Maintenance	35,344			35,344
Michigan Transportation Fund	336,921			336,921
State Highway--Other	102,795			102,795
Due on County Road Agreements	98,174			98,174
Sundry Accounts	36,983			36,983
Inventories				
Road Materials	763,161			763,161
Equipment Parts and Materials	266,094			266,094
Prepaid Expense	62,641			62,641
Property Plant and Equipment				
Net of Accumulated Depreciation			\$3,052,278	3,052,278
Amount to be Provided for				
Payment of Long-Term Debt		\$564,780		564,780
Total Assets	\$ 2,228,930	\$564,780	\$3,052,278	\$ 5,845,988
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities				
Accounts Payable	\$ 259,699			\$ 259,699
Accrued Liabilities	54,067			54,067
Advances				
State Trunkline Equipment Purchase	313,074			313,074
State Trunkline Maintenance	98,671			98,671
Deferred Revenue--Forest Road Funds	382,972			382,972
Deferred Revenue--Delinquent Property Taxes	8,089			8,089
Vested Employee Benefits Payable		\$564,780		564,780
Total Liabilities	1,116,572	564,780	\$ -	1,681,352
Fund Equities				
Investment in General Fixed Assets			3,052,278	3,052,278
Fund Balance				
Reserved for Self-Insurance	121,998			121,998
Reserved for Inventory	1,029,255			1,029,255
Unreserved and Undesignated	(38,895)			(38,895)
Total Fund Equities	1,112,358	-	3,052,278	4,164,636
Total Liabilities and Fund Equities	\$ 2,228,930	\$564,780	\$3,052,278	\$ 5,845,988

The Notes to Financial Statements are an integral part of this statement.

**ONTONAGON COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended September 30, 2003**

EXHIBIT B

	<u>Operating Fund</u>
Revenues	
Taxes	\$ 744,679
Federal Aid	30,579
State Aid	2,481,365
Contributions From Local Units	127,066
Charges for Services	1,770,688
Interest and Rents	16,502
Other Revenue	<u>36,555</u>
Total Revenues	<u>5,207,434</u>
Expenditures	
Public Works	4,913,093
Capital Outlay	<u>579,626</u>
Total Expenditures	<u>5,492,719</u>
Excess of Revenues Over (Under) Expenditures	(285,285)
Fund Balance--October 1, 2002	<u>1,397,646</u>
Fund Balance--September 30, 2003	<u><u>\$1,112,361</u></u>

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY ROAD COMMISSION
STATEMENT OF REVENUES--BUDGET AND ACTUAL
For the Year Ended September 30, 2003

EXHIBIT C

	Budget	Actual	Variance Favorable (Unfavorable)
Taxes			
Property Taxes	\$ 743,972	\$ 744,679	\$ 707
Federal Aid			
Surface Transportation Program	-	7	7
Economic D Funds		5,823	5,823
FEMA		24,749	24,749
State Aid			
Michigan Transportation Fund			
Engineering	10,000	10,000	-
Primary Road	1,288,437	1,288,437	-
Local Road	601,563	645,133	43,570
Snow Removal	314,645	314,646	1
Economic Development Funds			
"D" Rural Primary		(835)	(835)
"E" Forest Road	220,000	220,000	-
FEMA	-	3,984	3,984
Contributions--Local Units			
Townships	125,000	127,066	2,066
Charges for Services			
State Trunkline Maintenance	1,650,000	1,579,923	(70,077)
State Trunkline Nonmaintenance	-	190,257	190,257
Salvage Sales	-	508	508
Interest and Rents			
Interest Earned	12,500	16,502	4,002
Other Revenue			
Gain on Equipment Disposal	17,000	20,000	3,000
Sale of Surplus Property		16,555	16,555
Total Operating Revenue	<u>4,983,117</u>	<u>\$ 5,207,434</u>	<u>\$ 224,317</u>
Fund Balance--October 1, 2002	<u>1,272,649</u>		
Total Budget	<u><u>\$ 6,255,766</u></u>		

The Notes to Financial Statements are an integral part of this statement.

**ONTONAGON COUNTY ROAD COMMISSION
STATEMENT OF EXPENDITURES--BUDGET AND ACTUAL
For the Year Ended September 30, 2003**

EXHIBIT D

	Budget	Actual	Variance Favorable (Unfavorable)
Primary Road			
Heavy Maintenance	\$ 400,000	\$ 321,179	\$ 78,821
Maintenance	600,000	498,766	101,234
Local Road			
Heavy Maintenance	600,000	574,152	25,848
Maintenance	1,498,321	1,218,659	279,662
Primary Road Structure			
Heavy Maintenance	-	-	-
Maintenance	-	-	-
Local Road Structure			
Maintenance	1,679	1,679	-
State Trunkline			
Maintenance	1,579,923	1,579,923	-
Nonmaintenance	190,257	190,257	-
Equipment Expense--Net	692,598		
Direct		\$ 1,282,933	
Indirect		755,899	
Operating		218,037	
Less: Equipment Rentals		<u>(1,564,272)</u>	\$ 1
Administrative Expense--Net	259,048		
Administrative Expense		413,450	
Less: Overhead--Trunkline Maintenance		(159,400)	
Handling Charges		(6,685)	
Purchase Discounts		<u>(31)</u>	11,714
Capital Outlay--Net	168,174		
Capital Outlay		579,626	
Less: Depreciation Credits		(411,453)	
Equipment Retirements		<u>-</u>	1
Total Expenditures	5,990,000	<u>\$ 5,492,719</u>	<u>\$ 497,281</u>
Fund Balance--September 30, 2003	<u>265,766</u>		
Total Budget	<u>\$ 6,255,766</u>		

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE A--REPORTING ENTITY

The Ontonagon County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3 member board of county road commissioners appointed by the county board of commissioners. The Road Commission may not issue debt without the county's approval and the property tax levy for road purposes is subject to county board of commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Ontonagon County Road Commission, a discretely presented component unit of Ontonagon County, and include the Road Commission Operating Fund, General Fixed Asset Account Group and General Long-Term Debt Account Group.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accounts of the Road Commission are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The financial activities of the Road Commission are recorded in separate funds and account groups, categorized as follows:

Governmental Fund--Special Revenue Fund

Special revenue funds are used to account for specific revenue (other than expendable trusts or major capital projects) derived from State and Federal grants, general fund appropriations and charges for services which are to be expended for specific purposes as dictated by legal, regulatory or administrative requirements.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Account Groups--General Fixed Assets Account Group

This account group presents the fixed assets of the Road Commission utilized in its general operations. Fixed assets used in the general fund type operations are accounted for in the general fixed assets account group, rather than in the governmental funds. All fixed assets are recorded at cost, or if donated, at their estimated fair value on the date donated.

General Long-Term Debt Account Group

This account group presents the balance of general obligation long-term debt.

The general fixed assets group of accounts and the general long-term debt group of accounts are not funds and do not involve the measurement of results of operations.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting policies of the Ontonagon County Road Commission conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

The modified accrual basis of accounting is followed by the General Operating Fund (special revenue fund category). The modified accrual basis provides that revenues be recorded when they become both measurable and available to finance expenditures of the fiscal period. Expenditures are recorded when the related liability is incurred.

Cash, Cash Equivalents and Investments

Investments are recorded at cost. Demand deposits and short-term investments with a maturity date of 3 months or less when acquired are considered to be cash equivalents.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

General Fixed Assets and Depreciation

Fixed assets are stated at historical costs or estimated historical costs if actual historical costs are not available. Donated fixed assets are valued at their estimated fair values on the date donated. Governmental fund fixed assets are recorded in the general fixed assets account group.

Fixed assets used in governmental fund type operations are accounted for in the general fixed assets account group, rather than in governmental funds. Public domain ("infrastructure") general fixed assets, consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are recorded for 2003.

Depreciation on Road Commission fixed assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other fixed assets. The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to a depreciation credit account, except for the infrastructure assets. The infrastructure asset depreciation does not include depreciation expense in the financial statements but is included in the accumulated depreciation in the general fixed asset account group. Accordingly, the annual depreciation expense does not affect the available operating equities of the General Operating Fund. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12-50 years

Long-Term Debt

The general long-term debt account group is used to account for long-term liabilities that will be financed from the General Operating Fund.

Property Taxes

The 2002 State equalized valuation of Ontonagon County amounted to \$233,345,942 and the taxable valuation was \$169,471,436, on which ad valorem taxes of 4.9118 mills were levied for the Road Commission and the Village of Ontonagon's snow removal and road construction purposes. In addition, specific taxes are levied under the Industrial Facilities Tax Act and Commercial Forest Reserve Act.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The county's 2002 ad valorem tax was levied and collectible on December 1, 2002. It is the county's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of the levy are budgeted and made available for financing operations. The 2002 tax levy for Road Commission operations were recorded as revenue during the year ended September 30, 2003 totaling \$744,679 for all taxes received.

Interest-Bearing Deposits

Interest-bearing deposits are recorded at cost. Interest earned is recorded as revenue when the investment matures, or when credited by the financial institution to the interest-bearing account.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Total Column on Combined Statements--Overview

The total column on Exhibit A is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in aggregation of this data.

NOTE C--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year and is approved by the board. The board has authorized the chief administrative officer and fiscal officer to amend the Road Commission's budget when necessary, without increasing the overall budget, by transferring funds between cost centers (activities).

The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INTEREST-BEARING DEPOSITS

Michigan Compiled Laws, Section 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or an agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Road Commission deposits are in accordance with statutory authority.

The county board of road commissioners has adopted the county's investment policy, which has designated six (6) banks for the deposit of the Road Commission funds in the name of the county treasurer.

The risk disclosures for the Road Commission deposits, as required by the Governmental Accounting Standards Board (GASB) Statement No. 3, are as follows:

Cash and Deposits	<u>Carrying Amount</u>	<u>Financial Institution Balance</u>
Imprest Cash	\$ 100	
Insured (FDIC)	500,000	\$ 500,000
Uninsured and Uncollateralized	<u>18,628</u>	<u>266,493</u>
Total	<u>\$518,728</u>	<u>\$ 766,493</u>

The Road Commission's insured deposit amount results from the County Road Fund meeting certain specified criteria under FDIC regulations.

NOTE E--DEFERRED COMPENSATION PLAN

The Ontonagon County Board of Road Commissioners offers all Road Commission employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457 with Comprehensive Financial Services, Inc. The assets of the plans were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32 requirements, plan balances and activities are not reflected in the Road Commission's financial statements.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--RESERVE FOR SELF-INSURANCE

The Ontonagon County Board of Road Commissioners' policy is to self-insure for employee group life coverage. The self-insurance reserve account was established in 1992, and is funded by annual transfers of amounts equal to what the approximate premium would be for life insurance coverage, plus the annual interest earnings on the reserve account balance. The Road Commission's policy provides that the transfers of premium amounts will be discontinued when the annual interest earnings on the reserve account is greater than the estimated premium cost. All group life benefit payments are expensed when paid and closed to the reserve account at year-end.

A summary of the changes in the reserve for self-insurance for the year ended September 30, 2003 is as follows:

Reserve Balance--October 1, 2002	\$ 124,998
Less: 2002/2003 Death Benefit Payment	<u>(3,000)</u>
 Reserve Balance--September 30, 2003	 <u><u>\$ 121,998</u></u>

NOTE G--GENERAL LONG-TERM DEBT

The general long-term debt of the Road Commission may be summarized as follows:

	<u>Balance</u> <u>10/01/2002</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>09/30/2003</u>
Vested Employee Benefits			
Vacation Benefits	\$ 72,141	\$ (1,614)	\$ 70,527
Sick Leave Benefits	<u>452,053</u>	<u>42,200</u>	<u>494,253</u>
 Total	 <u><u>\$ 524,194</u></u>	 <u><u>\$ 40,586</u></u>	 <u><u>\$564,780</u></u>

Vested Employee Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. The annual vacation benefits earned by each employee are credited on the employee's employment anniversary date. Employees are required to use their vacation benefits within 1 year, except those employees earning 3 or 4 weeks of vacation may be paid at their anniversary date for any unused portion of those weeks at their regular rate of pay, with the approval of the engineer or foreman.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--GENERAL LONG-TERM DEBT (Continued)

Sick Leave Benefit Policies

Road Commission employment policies provide that each regular employee shall earn sick leave with pay at the rate of 1 day per month, with an unlimited accumulation. Upon permanent separation from employment, employees hired prior to July 1, 1994 shall be paid at their regular rate of pay for 100% of any accumulated unused sick leave. Those employees hired after July 1, 1994 shall be paid for a maximum of 80 days of accumulated unused sick leave.

NOTE H--FIXED ASSETS ACCOUNT GROUP

Following is a summary of the changes in the fixed assets account group for the year ending September 30, 2003:

	<u>Balances</u> 10/01/2002	<u>Additions</u>	<u>Deductions/ Adjustments</u>	<u>Balances</u> 09/30/2003
Fixed Assets Accounts				
Land and Improvements	\$ 10,412	\$ 39,026		\$ 49,438
Building	2,193,184	51,750		2,244,934
Road Equipment	5,663,402	527,876	\$133,835	6,057,443
Shop Equipment	135,941			135,941
Office Equipment	76,345			76,345
Engineer's Equipment	24,350			24,350
Infrastructure		856,305		856,305
Depletable Assets	<u>1,408</u>			<u>1,408</u>
Total	<u>8,105,042</u>	<u>1,474,957</u>	<u>133,835</u>	<u>9,446,164</u>
Reserve for Depreciation Accounts				
Building	990,000	62,695		1,052,695
Road Equipment	4,912,885	351,521	133,835	5,130,571
Shop Equipment	114,080	4,895		118,975
Office Equipment	67,746	1,456		69,202
Engineer's Equipment	21,468	975		22,443
Reserve for Depletion				
Total	<u>6,106,179</u>	<u>421,542</u>	<u>133,835</u>	<u>6,393,886</u>
Plant and Equipment Equity				
Road Commission Funds	<u>\$1,998,863</u>	<u>\$1,474,957</u>	<u>\$421,542</u>	<u>\$3,052,278</u>

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE I--EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

The Ontonagon County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% times the final average compensation. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2002.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The Road Commission was required to contribute at an actuarially determined rate, which was 19.59% at December 31, 2000 for the contributions for the calendar year ending December 31, 2002 of the covered payroll.

Annual Pension Cost

During the calendar year ended December 31, 2002, the Road Commission's contributions totaling \$398,067 were made in accordance with the contribution requirement determined by the actuarial valuation of the plan as of December 31, 2000. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE I--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2000	\$ 377,293	100%	\$0
2001	454,539	100%	\$0
2002	398,067	100%	\$0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/2000	\$4,674,546	\$8,695,106	\$4,020,560	54%	\$1,801,668	223%
12/31/2001	5,303,448	9,877,882	4,574,434	54%	2,024,994	226%
12/31/2002	5,738,460	10,354,113	4,615,653	55%	2,007,959	230%

NOTE J--POST-EMPLOYMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note I, the Ontonagon County Road Commission provides post-employment health care benefits and life insurance benefits in accordance with the provisions of Article 14, Section 2(E), and Section 4 of the union agreement. The post-employment health care benefit provides that the Road Commission shall pay the full hospitalization insurance plan premium for the retirees for a five-year period from the date of retirement. The Road Commission will pay 25% of the premium on a Blue Cross/Blue Shield Supplemental Insurance Plan or alternate plan capping the alternate plan at 25% of the offered Blue Cross Plan. The post-employment life insurance benefit provides that the Road Commission will provide for term-life insurance coverage of \$1,500 for each Road Commission employee who retired prior to July 1, 1992 and \$5,000 for those retired after that date.

The Road Commission's policy is to finance these benefits on a pay-as-you-go basis. During the year ended September 30, 2003, 12 retirees were eligible for the post-retirement health care benefits at a cost of \$48,228. As described more fully in Note G, the Road Commission self-insures for life insurance benefits, which covered 10 retirees for \$1,500 and 12 retirees for \$5,000 during the year ended September 30, 2003.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE K--RISK MANAGEMENT

The Road Commission has purchased commercial insurance for medical benefits claims, self-insure for employee group life coverage as detailed in Note F, and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial and pool insurance have not exceeded the amount of insurance coverage in any of the past 3 years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Ontonagon County Road Commission became a charter member on October 1, 2001.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

**ONTONAGON COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended September 30, 2003**

EXHIBIT E

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 1,299,932	\$ 1,339,078	\$ 2,568,424	\$ 5,207,434
Total Expenditures	1,003,828	2,237,485	2,251,406	5,492,719
Excess of Revenues Over (Under) Expenditures	296,104	(898,407)	317,018	(285,285)
Other Financing Sources (Uses)				
Optional Transfers	(296,104)	296,104		-
Interfund Adjustment		602,303	(602,303)	-
Total Other Financing Sources (Uses)	(296,104)	898,407	(602,303)	-
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	-	-	(285,285)	(285,285)
Fund Balance--October 1, 2002		-	1,397,646	1,397,646
Fund Balance--September 30, 2003	\$ -	\$ -	\$ 1,112,361	\$ 1,112,361

ONTONAGON COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
For the Year Ended September 30, 2003

EXHIBIT F

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Taxes				
Property Taxes			\$ 744,679	\$ 744,679
Federal Aid				
Surface Transportation Program	\$ 7			7
Economic D Funds	5,823			5,823
FEMA		\$ 24,749		24,749
State Aid				
Michigan Transportation Fund				
Engineering	6,500	3,500		10,000
Allocation	1,288,437	645,133		1,933,570
Snow Removal		314,646		314,646
Economic Development Funds				
"D" Rural Primary	(835)			(835)
"E" Forest Road		220,000		220,000
FEMA		3,984		3,984
Contributions--Local Units				
Townships		127,066		127,066
Charges for Services				
State Trunkline Maintenance			1,579,923	1,579,923
State Trunkline Nonmaintenance			190,257	190,257
Salvage Sales			508	508
Interest and Rents				
Interest Earned			16,502	16,502
Other Revenue				
Gain on Equipment Disposal			20,000	20,000
Sale of Surplus Property			16,555	16,555
Total Operating Revenue	\$ 1,299,932	\$ 1,339,078	\$ 2,568,424	\$ 5,207,434

**ONTONAGON COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended September 30, 2003**

EXHIBIT G

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Heavy Maintenance	\$ 321,179			\$ 321,179
Maintenance	498,766			498,766
Local Road				
Heavy Maintenance		\$ 574,152		574,152
Maintenance		1,218,659		1,218,659
State Trunkline				
Maintenance			\$ 1,579,923	1,579,923
Nonmaintenance			190,257	190,257
Equipment Expense--Net (Per Exhibit D)	106,314	273,230	313,053	692,597
Administrative Expense--Net (Per Exhibit D)	77,569	169,765		247,334
Capital Outlay--Net (Per Exhibit D)			168,173	168,173
Total Expenditures	<u>\$ 1,003,828</u>	<u>\$ 2,237,485</u>	<u>\$ 2,251,406</u>	<u>\$ 5,492,719</u>



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

JAY B. RISING
STATE TREASURER

February 11, 2004

Board of County Road Commissioners
Ontonagon County
414 Spar Street
Ontonagon, Michigan 49953

RE: Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of Ontonagon County Road Commission, a component unit of Ontonagon County, as of and for the year ended September 30, 2003, and have issued our report thereon dated February 11, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance--As part of obtaining reasonable assurance about whether Ontonagon County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered Ontonagon County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read 'CJ Vaughn', written over a light gray rectangular background.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division